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Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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Federal Communications Commission
Office of Secretary

In the Matter of

Petition of MCI for Declaratory Ruling

CC Docket No. 96-98

CCBPol 97-4

COMMENTS OF NORTHERN TELECOM INC.

Northern Telecom Inc. ("Nortel") hereby responds to the questions posed in the Commission's public notice regarding MCI's petition requesting the FCC to declare as violative of the Communications Act efforts to condition requesting telecommunications carriers' access to unbundled network elements upon their obtaining a licensing or right-to-use agreement.^{1/} The Public Notice requests comment, among other things, on whether the intellectual property rights of equipment vendors are implicated when incumbent local exchange companies ("ILECs") provide requesting telecommunications carriers with unbundled network elements or services for resale ("resold service") pursuant to Section 251 of the 1996 Telecommunications Act. From Nortel's perspective, the answer to whether such rights are implicated depends on the specific unbundled network element or resold service. It is important to note that vendors may possess not only intellectual property rights, but also related confidentiality, restricted-use and/or other rights that may be implicated by the unbundling of certain network elements and the resale of certain services.

^{1/} "Pleading Cycle Established for Comments on Petition of MCI for Declaratory Ruling that New Entrants Need Not Obtain Separate License or Right-to-Use Agreements Before Purchasing Unbundled Elements," Public Notice, CCBPol 97-4, CC Docket No. 96-98, DA 97-557 (released March 14, 1997) ("Public Notice").

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SUMMARY

The provision of any particular unbundled network element or resold service may implicate intellectual property, confidentiality, restricted use, and/or other rights designed to be protected by existing licensing, nondisclosure, and/or purchase agreements (collectively "agreements") between equipment vendors and their carrier customers. Where such rights exist, Nortel urges the FCC to ensure that unbundled network elements and resold services are allowed to be provided to requesting telecommunications carriers in a manner that preserves such rights and agreements. Nortel supports processes that protect its rights. Nortel is willing to enter into reasonable agreements with either or both sets of carriers to accomplish these goals.

COMMENTS

Nortel's keen interest in this proceeding stems from the fact that it is the leading global supplier, in more than 100 countries, of digital telecommunications systems to businesses, universities, local, state and federal governments, the telecommunications industry, and other institutions. The company employs more than 23,000 people in the United States in manufacturing plants, research and development centers, and in marketing, sales and service offices across the country. In several FCC proceedings, Nortel has urged the Commission to implement the Telecommunications Act of 1996 in a manner that ensures that its existing intellectual property, confidentiality, and contractual rights are fully

protected.^{2/} As it has stated before, Nortel recognizes the theoretical potential for an ILEC to attempt to rely on the existence of intellectual property, confidentiality, and contractual rights to preclude or delay entry by competitors. That theoretical risk, however, must be balanced against the very real adverse effects to third party manufacturers if their rights are not allowed to be protected.

In order to understand Nortel's potential concerns, it is necessary to understand how Nortel markets its equipment to its carrier customers, including ILECs. Typically, Nortel enters into equipment sales agreements with its customers under which the hardware portion of the equipment is sold, and the software (including firmware) portion of equipment explicitly is licensed. In the contract, Nortel implicitly grants certain rights to its customers to make use of Nortel's intellectual property associated with the equipment and software. In connection with such implicit grant of rights, the contract also typically includes terms under which Nortel indemnifies its customers if a third party successfully makes certain intellectual property claims against a customer's normal use of the equipment and/or software. Nortel's customers also expressly are obliged to treat the licensed software and any proprietary information divulged to them as confidential, and not to disclose such software or information to unauthorized third parties. In addition, customer contracts often contain specific performance-level warranties by Nortel which are conditioned on stated assumptions regarding the customer's use of the equipment, such as the number of the customer's users and the mix of services the customer will offer.

Nortel would be very concerned if the FCC ordered, or otherwise allowed, requesting telecommunications carriers to access unbundled network elements or resold services of

^{2/} See, e.g., Nortel Comments in CC Docket No. 96-98 (filed on May 20, 1996); Nortel Comments in CC Docket 96-254 (filed on February 24, 1997) at 5-7.

Nortel's customers to the extent that such access would not be permitted under agreements between Nortel and its customers that may apply to such elements and services and that are designed, in large measure, to protect vendors' intellectual property, confidentiality and/or other rights.^{3/} Such an impact runs directly counter to Commission precedent. The FCC consistently has recognized the need to preserve the integrity of intellectual property rights that otherwise could be affected by Commission action.^{4/} As that FCC precedent clearly reflects, protecting intellectual property rights fosters innovation which, in turn, benefits the public by encouraging the design and development of new products and services.^{5/}

Preserving such rights thus also is consistent with Congress' direction in the

^{3/} Nortel and its affiliates spend over \$1 billion annually on research and development activities. The Commission historically has recognized the validity of manufacturers' concerns regarding disclosure of their proprietary information. *See, Commission Requirements for Cost Support Material To Be Filed with Open Network Architecture Access Tariffs*, 6 FCC Rcd. 6131 (1991) *as amended*, 6 FCC Rcd. 6592 (1991); *Commission Requirements for Cost Support Material To Be Filed with Open Network Architecture Access Tariffs*, 7 FCC Rcd. 521 (1991); *Commission Requirements for Cost Support Material To Be Filed with Open Network Architecture Access Tariffs*, 7 FCC Rcd. 1526 (1992), *Allnet Communications Services, Inc.*, FOIA Control No. 92-266, (Aug. 3, 1992).

^{4/} *See, e.g., Amendment to the Commission's Regulatory Policies Governing Domestic Fixed Satellite Systems*, Report and Order, 11 FCC Rcd. 2429, 2433 (1996) ("*Domestic Fixed Satellite Order*") (recognizing the importance of protecting the integrity of intellectual property for the creation of communications networks); *Inquiry Into The Need For A Universal Encryption Standard for Satellite Cable Programming*, Notice of Inquiry, 4 FCC Rcd. 3479, 3485 (1989) ("*Satellite Encryption NOI*") (recognizing that regardless of FCC regulation, patent holders would not lose their right to require a license for use of their technology). Indeed, a recent speech by the FCC's then-Chief Economist expressly recognized the importance of protecting intellectual property rights implicated in the unbundling of network elements. "Competition, Innovation and Deregulation" Speech by Joseph Farrell, FCC Chief Economist, before the Merrill Lynch "Telecommunications CEO Conference," New York, March 19, 1997 (released April 1, 1997).

^{5/} *See, e.g., Inquiry Into The Need For A Universal Encryption Standard for Satellite Cable Programming*, Report, 5 FCC Rcd. 2710, 2717 (1990) ("The whole purpose of the patent system is to allow the patent holder to reap profits to provide any incentive for innovation.").

Telecommunications Act of 1996 to create incentives for the deployment of new and advanced telecommunications technologies.^{6/}

Indeed, it is far from clear that the FCC has the jurisdiction to affect existing rights with respect to the licensing of intellectual property or other contract, proprietary or confidentiality rights, particularly in the absence of express Congressional authority to do so.^{7/} As the Commission has recognized on other occasions, such action would appear to intrude on the functions of the courts and other government agencies.^{8/} With this background, Nortel responds to the specific questions raised in the Public Notice.

(1) Does providing access to unbundled network elements implicate the intellectual property rights of equipment vendors or other third parties? Why or why not?

Depending on where the unbundling occurs, access to particular unbundled network elements may implicate certain vendor rights. To the extent that the provision of access to an unbundled element does not involve (1) physical, electronic, or other access by the requesting carrier to the vendor's equipment or software, (2) the modification of such equipment or software, or (3) access to the vendor's proprietary information, the intellectual

^{6/} Section 706 of the Telecommunications Act of 1996 (creating national education technology funding corporation); *see also*, 47 U.S.C. § 157 ("It shall be the policy of the United States to encourage the provision of new technologies and services to the public.").

^{7/} *See, e.g., Satellite Encryption NOI*, 4 FCC Rcd. at 3485 (questioning the FCC's authority to regulate the licensing of patents on an encryption system that the Commission may promulgate as a standard); *Inquiry Into The Need For A Universal Encryption Standard for Satellite Cable Programming*, Report, 5 FCC Rcd. 2710, 2711 (1990)(despite the undisputed contention on the record, supported by legal analysis, that the FCC has no authority to compel patent licensing on specified terms, the Commission expressly declined to make a finding on the issue because it did not promulgate a satellite encryption standard); *see also id.* at 2716 (recognizing that the issues of recovery of research and development, marketing, and anti-privacy expenses would be implicated if the FCC ever chose to regulate the licensing practices of patent holders).

^{8/} *See, e.g., Domestic Fixed Satellite Order*, 11 FCC Rcd. at 2433.

property or confidentiality rights of vendors do not appear to be implicated. Similarly, no additional vendor rights appear to arise where the customer's contractual limits on its use of such equipment and/or software would continue to apply to the requesting telecommunications carrier's use of the unbundled network element.

Conversely, if the unbundled network element allows a requesting carrier to access the vendor's equipment, software, and/or proprietary information, or permits such carrier to modify such equipment or software, then significant vendor rights are likely to be implicated. Similarly, if an unbundled network element permits the customer to provide the requesting carrier with direct access to Nortel's equipment, software, or confidential information, then applicable contract confidentiality and software right-to-use restrictions may be violated. Indeed, software right-to-use restrictions may become an issue if the requesting carrier makes use of software features which have not been purchased, even if the requesting party is not given direct access to the software.^{9/} In addition, quality and performance specifications and indemnities made by Nortel to its customer may become void if the access provided to the requesting carrier results in the equipment or software being used in a manner that was not contemplated by the contract.

Where the equipment vendor's rights are implicated, the Commission should not require the provision of access to such unbundled network elements without first permitting

^{9/} For example, Nortel may offer a customer on an optional basis certain features that are encompassed within generic software releases. Such a situation occurs when Nortel allows a customer to obtain specific capabilities to meet regulatory requirements (*e.g.*, caller ID), without necessarily taking all of the services made possible by the upgraded switch. If the customer elects not to purchase all of the features, the customer has no right to use the software to obtain those additional features. In addition, such features may be licensed only for a specified level of usage, such as no more than a stated number of lines being utilized. Nortel notes that the right to modify the vendor's equipment and software is beyond the scope of the customary rights granted by Nortel to its ILEC customers.

the vendor that owns those rights to determine on what terms it is willing to grant the rights to the requesting carrier and to insure that such rights are protected through agreement by the requesting carrier. For example, Nortel's contracts with customers typically do not permit the customer or third parties to modify the equipment or software provided by Nortel. If Nortel is otherwise willing to grant the rights to an ILEC or a requesting carrier to make such modifications, Nortel should be entitled to require as a condition to its approval that the ILEC and/or the requesting carrier agree that Nortel has no liability to them for any claims they may have or that may be brought against them arising out of such modifications, and that either or both of them will affirmatively indemnify Nortel against any claims brought by third parties directly against Nortel arising out of such modifications. Nortel is willing to work with either its customers or other requesting parties to accommodate their reasonable requests.

As stated herein, Nortel does not want to over-emphasize these concerns. Nortel's concerns typically will not arise if the request for unbundled network elements can be accommodated by Nortel's customer in a manner that does not require that the requesting party be given direct access to Nortel's software or proprietary information. Such requests may involve the payment of additional compensation to Nortel, however, if the request is for a feature or user capability which, while technically feasible, was not purchased from Nortel.

(2) Does providing access to network elements other than access to vertical features of unbundled switches implicated intellectual property rights of equipment vendors or other third parties? Why or why not?

In addition to vertical features of unbundled switches, the rights and issues discussed above also could arise in the context of unbundled network elements or resold services involving proprietary interfaces and/or protocols. These potential concerns are not limited

just to vertical features, insofar as a third party's proprietary interfaces and/or protocols may exist in many places in a carrier's network.

- (3) Does providing access to services for resale, in accordance with section 251, implicate intellectual property rights of equipment vendors or other third parties? Why or why not?**

Typically, a customer's resale of telecommunications services to a requesting carrier does not appear to impact any significant rights for the vendor of the equipment and/or software used by the customer to provide such telecommunications services. This assertion assumes that the resold services do not involve physical, electronic or other access to the vendor's equipment or software, and that such resale does not require the modification of such equipment or software or the disclosure of any of the vendor's proprietary information. This also assumes that where the customer has agreed to limit its use of such equipment and software to provide telecommunications services, those limits would still apply, whether such services are being provided by the customer to end users or to a requesting carrier for resale.

If such access or modification occurs, or restricted-use limitations are not protected, then the rights and concerns discussed in response to Question One also could arise in the resale context.

- (4) What are the potential burdens on requesting telecommunications carriers if they are required to independently negotiate licensing agreements with equipment vendors or other third parties before obtaining access to unbundled network elements? Are there ways to eliminate or reduce the burdens on requesting telecommunications carriers?**

While Nortel is not in a position to speak to such burdens on the requesting carriers, it will endeavor to deal promptly and in a commercially-reasonable manner with any and all parties in order to enter into agreements to protect its rights. Nortel takes no position regarding whether the Commission should mandate that the agreements be established directly between the vendor and the requesting telecommunications carrier or between the

requesting carrier and the ILEC in accordance with the rights granted by the vendor to the ILEC.

CONCLUSION

The provision of unbundled network elements and resold services may directly implicate the intellectual property, confidentiality, and contractual rights of third-party vendors such as Nortel. Nortel's goal is to protect its intellectual property and commercial interests while facilitating the execution of interconnection agreements. Nortel is willing to enter into reasonable agreements with either or both sets of carriers to accomplish these goals. Regardless of the method employed, for its part, Nortel will take all necessary and reasonable steps to ensure that such contracts can be executed on as timely, and in as unburdensome, a manner as possible.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

I, Mary-Helen Dove, do hereby certify that copies of Northern Telecom Inc.'s Comments in CC Docket No. 96-98, CCBPol 97-4 were sent via first class mail to the following on April 15, 1997.

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